

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ottawa County Road Commission	County Ottawa
Fiscal Year End 9/30/07	Opinion Date 3/21/08	Date Audit Report Submitted to State 3/27/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

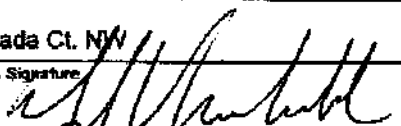
YES

☒ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveid Haefner LLC		Telephone Number 616-460-9388		
Street Address 4001 Granada Ct. NW		City Grand Rapids	State MI	Zip 49534
Authorizing CPA Signature 		Printed Name Douglas J. Vredeveid		License Number 21289

OTTAWA COUNTY ROAD COMMISSION

(A Component Unit of Ottawa County)

Ottawa County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007



Vredeveld Haefner LLC

OTTAWA COUNTY ROAD COMMISSION
(A Component Unit of Ottawa County)

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INDEPENDENT AUDITORS' REPORT

March 21, 2008

Ottawa County Road Commission
Board of Commissioners
Grand Haven, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ottawa County Road Commission (the Commission), a component unit of Ottawa County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund for the Ottawa County Road Commission as of September 30, 2007, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ottawa County Road Commission's basic financial statements. The general fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The general fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vredeveld Haefner LLC

Management's Discussion and Analysis

As management of the Ottawa County Road Commission (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Several road and bridge projects funded with state, federal, and commission funds were undertaken or finalized during the current year. These projects resulted in additional revenues and expenditures of approximately \$3 million from 2006.
- Local townships increased funding for local road projects resulting in approximately \$1 million of additional revenue and expenditures from 2006.
- Double digit increases in healthcare and continuing increases in pension costs were experienced in the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and governmental funds balance sheet on a single page and the statement of activities and governmental funds revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Note that Ottawa County's government-wide financial statements are not presented herein because the Commission is a component unit of the County. The County presents their financial statements in a separately issued comprehensive annual financial report.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financially accountable.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on long-term debt).

Both of the government-wide financial statements display functions of the Commission that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Ottawa County. The Commission does not have any business-type activities.

In this report, financial information for the Commission is reported separately from the financial information presented for Ottawa County which reports the Commission as a component unit.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission only utilizes and presents a general fund. The Commission does not utilize proprietary or fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be major fund.

The Commission adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information is limited to this management discussion and analysis. General fund schedules are presented as supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$160,564,574 at the close of the most recent fiscal year.

The most significant portion of the Commission's net assets reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Commission's capital assets consist of road infrastructure and capital assets used to construct and maintain this infrastructure; consequently, these assets are *not* available for future spending. Although the Commission investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$10,896,147	\$ 8,111,041
Noncurrent assets		
Capital assets	156,030,282	148,482,886
Total assets	166,926,429	156,593,927
Liabilities		
Current liabilities	2,805,205	2,085,208
Long-term liabilities	3,556,650	3,896,665
Total liabilities	6,361,855	5,981,873
Net assets		
Invested in capital assets, net of related debt	153,320,252	145,471,525
Restricted	4,369,991	2,959,323
Unrestricted	2,874,331	2,181,206
Total net assets	\$160,564,574	\$150,612,054

Net assets of the Commission increased by \$9,952,520. The increase in net assets is primarily the result of the timing difference between when infrastructure is purchased and when depreciation is recorded on the infrastructure.

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue		
Charges for Services	\$8,299,444	\$ 6,914,084
Operating grants and contributions	16,226,778	16,084,489
Capital grants and contributions	6,004,379	2,979,424
General revenue		
Interest income	165,398	107,388
Grants and contributions not Restricted to specific programs		-
Gain on sale of capital assets	204,802	81,962
Other	300,739	205,830
Total revenue	31,201,540	26,373,177
Expenses		
Public works	21,143,896	21,533,311
Interest	105,124	118,434
Total expenses	21,249,020	21,651,745
Increase (decrease) in net assets	9,952,520	4,721,432
Net assets-beginning of year	150,612,054	145,890,622
Net assets end of year	\$160,564,574	\$150,612,054

Governmental activities

During the year the Commission expended approximately 40% of its total expenses on depreciation of capital asset and less than .5 percent on interest expense. The remaining \$12,602,423 of total expenses was for public works activities.

Financial Analysis of the Government's Funds (General fund)

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Commission's *general fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Commission's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Commission's general fund reported combined ending fund balances of \$8,090,942, an increase of \$2,187,484 in comparison with the prior year. This increase is primarily the result of the timing of road construction activities and receipt of fuel taxes.

The general fund is the chief operating fund of the Commission. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$3,399,321. As a measure of the general fund's liquidity, it is important to note that the general fund operates primarily on operating and capital grant funding.

General Fund Budgetary Highlights

Differences between the General Fund original and final amended budgets were primarily the result of township construction activities exceeding initial expectations and additional state trunkline maintenance funding being made available by the Michigan Department of Transportation.

Capital Asset and Debt Administration

Capital assets. The Commission's investment in capital assets for its governmental activities as of September 30, 2007 amounted to \$156,030,282 (net of accumulated depreciation).

Significant capital asset additions during the year include the following:

- Approximately \$15 million of road infrastructure.
- Two wheel loader and replacement equipment.

The Commission's capital assets (net of depreciation) are summarized as follows:

	Governmental Activities
Land and improvements	\$1,367,182
Buildings and equipment	4,476,830
Infrastructure	<u>150,186,270</u>
Total	<u>\$156,030,282</u>

Additional information on the Commission's capital assets can be found in Note 4 of this report.

Debt. At the end of the current fiscal year, the Commission had outstanding long-term debt as follows:

	<u>Governmental Activities</u>
Bonds and installment purchases	\$2,710,030
Claims	123,163
Compensated absences	<u>723,457</u>
Total	<u>\$3,556,650</u>

Additional information on the Commission's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Commission's budget for the 2007-2008 fiscal year:

- Michigan Department of Transportation estimated fuel tax receipts to decline by 4% from 2007 levels.
- Employee benefit costs are expected to increase 10% from 2007 levels.
- Township participation in the local road program is expected to decrease by 50% from 2007 levels.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ottawa County Road Commission, Finance Director, PO Box 739, Grand Haven, MI 49417.

BASIC FINANCIAL STATEMENTS

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2007

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and investments	\$ 4,747,223	\$ -	\$ 4,747,223
Accrued interest	2,452	-	2,452
Receivables			
State trunk line maintenance	228,249	-	228,249
Due from local units of government	1,043,852	-	1,043,852
Motor vehicle highway funds	2,810,971	-	2,810,971
Other	259,591	-	259,591
Long-term due from local units of government	570,287	-	570,287
Inventories			
Equipment, material, and parts	261,595	-	261,595
Road materials	581,417	-	581,417
Prepaid insurance	390,510	-	390,510
Capital assets			
Land	-	1,367,182	1,367,182
Property and equipment, net	-	4,476,830	4,476,830
Infrastructure net	-	150,186,270	150,186,270
Total assets	\$ 10,896,147	156,030,282	166,926,429
Liabilities			
Accounts payable	\$ 1,795,404	-	1,795,404
Accrued liabilities	367,040	-	367,040
Advances			
State trunk line equipment purchase	405,289	-	405,289
State trunk line maintenance	217,948	-	217,948
County drain special assessments payable	19,524	-	19,524
Noncurrent liabilities			
Due within one year	-	1,432,342	1,432,342
Due in more than one year	-	2,124,308	2,124,308
Total liabilities	2,805,205	3,556,650	6,361,855
Fund balance			
Reserved			
Inventory	843,012	(843,012)	-
Prepaid insurance	390,510	(390,510)	-
Reserved for long-term receivables	570,287	(570,287)	-
Unreserved			
Designated for commitments	2,887,812	(2,887,812)	-
Undesignated	3,399,321	(3,399,321)	-
Total fund balance	8,090,942	(8,090,942)	-
Total liabilities and fund balance	\$ 10,896,147		
Net Assets			
Invested in capital assets, net of related debt		153,320,252	153,320,252
Restricted		4,369,991	4,369,991
Unrestricted		2,874,331	2,874,331
Total net assets		\$ 160,564,574	\$ 160,564,574

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2007

Fund balances - total governmental funds	\$ 8,090,942
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because	
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	156,030,282
 Certain liabilities, such as bonds, installment purchase agreements, compensated absences, and claims payable, are not payable in the current period and therefore are not reported in the funds.	
Deduct - bonds and installment purchase agreements payable	(2,710,030)
Deduct - compensated absences payable	(723,457)
Deduct - claims payable	<u>(123,163)</u>
 Net assets of governmental activities	 <u>\$ 160,564,574</u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Public works	\$ 13,813,266	\$ 7,330,630	\$ 21,143,896
Capital outlay	14,837,391	(14,837,391)	-
Debt service			
Principal	558,783	(558,783)	-
Interest	105,124	-	105,124
Total expenditures/expenses	<u>29,314,564</u>	<u>(8,065,544)</u>	21,249,020
Program revenues			
Charges for services			
Townships	4,811,186	-	4,811,186
State trunk line	3,488,258	-	3,488,258
Operating grants and contributions			
State transportation funds	16,226,778	-	16,226,778
Capital grants and contributions			
Federal and state sources	6,004,379	-	6,004,379
Net program revenue			<u>30,530,601</u>
General revenue			
Interest earned	165,398	-	165,398
Salvage sales	18,424	-	18,424
Other	282,315	-	282,315
Other financing sources			
Proceeds/gain from sales of capital assets	247,858	(43,056)	204,802
Bond/installment purchase agreements issued	257,452	(257,452)	-
Total revenues and other financing sources	<u>31,502,048</u>		
Total general revenue			<u>670,939</u>
Change in fund balance/net assets	2,187,484	7,765,036	9,952,520
Fund balances/net assets, beginning of year as restated	<u>5,903,458</u>	<u>144,708,596</u>	<u>150,612,054</u>
Fund balances/net assets, end of year	<u>\$ 8,090,942</u>	<u>\$ 152,473,632</u>	<u>\$ 160,564,574</u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net changes in fund balances - general fund	\$ 2,187,484
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	16,131,925
Deduct - depreciation expense	(8,541,473)
Deduct - net book value of capital assets sold	(43,056)

Bond and lease purchase agreements provide current financial resources to governmental funds in the period issued, but issuance increases long-term liabilities in the statement of net assets. Repayment of bond or installment purchase principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on notes payable	558,783
Deduct - issuance of installment purchase agreement	(257,452)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - increase in compensated absences	(94,946)
Add - decrease in claims payable	<u>11,255</u>

Change in net assets of governmental activities	<u>\$ 9,952,520</u>
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The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget Amounts		Actual	Variance
	Original	Final	Amount	Positive (Negative)
Revenues				
Intergovernmental revenues				
Michigan transportation fund	\$ 16,100,000	\$ 16,100,000	\$ 16,226,778	\$ 126,778
Federal and state sources	8,120,000	8,000,000	6,004,379	(1,995,621)
State trunk line maintenance	2,900,000	3,380,000	3,488,258	108,258
Total intergovernmental revenues	27,120,000	27,480,000	25,719,415	(1,760,585)
Charges				
Township	3,500,000	4,600,000	4,811,186	211,186
Total charges	3,500,000	4,600,000	4,811,186	211,186
Other revenues				
Salvage sales			18,424	
Interest earned			165,398	
Other revenues			282,315	
Total other revenues	250,000	394,150	466,137	71,987
Total revenues	30,870,000	32,474,150	30,996,738	(1,477,412)
Expenditures				
Primary road				
Construction and heavy maintenance			9,959,964	
Maintenance			3,511,651	
Total primary road	15,810,000	15,133,000	13,471,615	1,661,385
Local road				
Construction and heavy maintenance			4,877,427	
Maintenance			4,667,493	
Local bridge			2,702	
Local paving			209,130	
Local gravel			28,603	
Local culverts			66,401	
Total Local road	8,250,000	10,390,000	9,751,756	638,244
State trunk line maintenance	2,900,000	3,380,000	3,412,107	(32,107)
Other				
County drain assessments			92,328	
Pfl maintenance			96,541	
Equipment expenses, net			(495,552)	
Administrative expenses, net			2,537,872	
Capita outlay, net			1,294,534	
Depreciation expense			(1,510,544)	
Debt service				
Principal			558,783	
Interest			105,124	
Total other	3,160,000	3,327,000	2,679,086	647,914
Total expenditures	31,120,000	32,230,000	29,314,564	2,915,436
Revenues over (under) expenditures	(250,000)	244,150	1,682,174	1,438,024
Other financing sources				
Sales of capital assets	-	-	247,858	247,858
Bond/installment purchase agreements issued	-	256,184	257,452	1,268
Total other financing sources (uses)	-	256,184	505,310	249,126
Net changes in fund balance	(250,000)	500,334	2,187,484	1,687,150
Fund balance, beginning of year	5,903,458	5,903,458	5,903,458	-
Fund balance, end of year	\$ 5,653,458	\$ 6,403,792	\$ 8,090,942	\$ 1,687,150

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ottawa County Road Commission (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Ottawa County Road Commission is a discretely presented component unit of Ottawa County, Michigan. The Commission was established pursuant to (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the Ottawa County Board of Commissioners.

The criteria established under generally accepted accounting principals for determining the reporting entity includes a significant operational or financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the Ottawa County Road Commission. The Commission has no component units.

The Road Commission general fund is used to control the expenditures of Michigan Transportation Fund monies and other grants and charges, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Commission's.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the primary government (the Commission). *Governmental activities* are reported in total. The Commission has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the governmental funds balance sheet and the statement of net assets and the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes. The Commission only utilizes a general fund.

The Commission reports the following major governmental funds:

The *General Fund* is the government's only operating fund. It accounts for all financial resources of the general government.

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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The general fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for charges for services, interest and grant revenues which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include compensated absences, claims, and principal and interest on long-term debt which are recognized when due.

The general fund is accounted for on a spending or "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

The general fund operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, it is said to present a summary of sources and uses of "available, spendable resources" during a period.

Budgets and Budgetary Accounting

The Road Commission's procedures for establishing budgetary data are as follows:

- The Managing Director submits a proposed budget for the upcoming year to the Road Commission.
- The budget is reviewed by the Road Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Commissioners.
- The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget.
- The Road Commission adopts a budget for the general fund by means of an appropriations act, on a departmental activity basis in summary form.
- Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts. The budget is prepared on the modified accrued basis of accounting.

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Cash and Investments

Cash and investments consist of the balance of cash, check, savings, pooled investment and mutual fund accounts. The Commission invests its cash and investment through Michigan financial institutions and the Ottawa County Treasurer. Michigan law authorizes the Commission to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

Receivables

Receivable consist primarily of the balance of fuel tax and trunkline maintenance fees due from the State of Michigan and balances due from local units of government for services provided. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year end).

Inventory

Inventory, consisting of various operating parts, supplies, and road material is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

Capital Assets

Capital assets, which include land, property, equipment, and infrastructure are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Only infrastructure assets acquired or donated since 1980 are included in the Commission capital asset balance. Donated capital assets are valued at their estimated fair market value on the date received.

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FOR THE YEAR ENDED SEPTEMBER 30, 2007

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	25-50
Equipment	3-15
Infrastructure	30

Compensated Absences

Under the Commission's personnel policy and contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation and sick leave under formulas and conditions specified in the policy and contracts. Accumulated leave of the general fund is recorded on the statement of net assets and not on the general fund balance sheet because it is not expected to be liquidated with expendable available financial resources.

Advances

Advances consist of monies provided by the Michigan Department of Transportation (MDOT) to provide cash flow to finance equipment and services provided by the Commission on MDOT trunkline designated roads. The cost of equipment and services used to provide these services is billed to the MDOT periodically.

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs are reported as public works expenditures.

Fund Equity/Net assets

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent amounts set aside by the Board for tentative plans for future use.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

2. CASH AND INVESTMENTS

Cash and investments reported on the financial statements consist of the following balance at year end:

	<u>Cash and Investments</u>
Checking	\$ 427,221
Saving	203,843
Certificates of deposit	780,000
Ottawa County investment pool	<u>3,336,159</u>
Cash and investments	<u>\$4,747,223</u>

The checking, savings and certificates of deposits are in three financial institution located in Michigan. All accounts are in the name of the Commission and a specific fund or common account. They are recorded in Commission records at fair value.

Deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of year end, \$3,364,426 of the Commission's bank balance of \$3,664,426 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investment risk

The above Ottawa County investment pool balance is held by Ottawa County at year end. The amount of investment risks can be determined for Ottawa County as a whole, but cannot be separately identified for the Commission

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that the Commission shall not incur expenditures in excess of the amount appropriated for the general fund.

In the body of the financial statements, the Commission's actual expenditures and budgeted expenditures for the general fund have been shown on a departmental activity basis.

During the year ended September 30, 2007, the Commission incurred expenditures in the general fund which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Public Works			
State trunkline maintenance	\$3,380,000	\$3,412,107	\$(32,107)

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2007</u>
Governmental Activities				
Capital assets, not being depreciated				
Land and right-of-way	\$ 1,367,182	\$ -	\$ -	\$ 1,367,182
Total capital assets, not being depreciated	1,367,182	-	-	1,367,182
Capital assets, being depreciated				
Buildings and improvements	11,167,430	-	-	11,167,430
Equipment	17,440,154	1,294,534	656,300	18,078,388
Infrastructure				
Primary	118,190,821	9,959,964	-	128,150,785
Local	85,122,286	4,877,427	-	89,999,713
Less: accumulated depreciation	84,804,987	8,541,473	613,244	92,733,216
Net capital assets, being depreciated	147,115,704	7,590,452	43,056	154,663,100
Governmental Activities capital assets, net	\$148,482,886	\$7,590,452	\$ 43,056	\$156,030,282

Depreciation expense of \$8,541,473 was charged to the public works function.

5. LONG-TERM DEBT

The following is a summary of long-term debt activity and balances of the Commission for the year ended September 30, 2007:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities					
\$4,500,000 Michigan Transportation Fund bonds, due in annual installments of \$450,000 through 2011; interest at 3.35% to 3.375%.	\$2,250,000	\$ -	\$450,000	\$ 1,800,000	\$450,000
\$308,001 Equipment Lease, due in monthly installments of \$3,807 through April 2008 including interest at 3.15%; final payment of \$134,250 due in May 2008.	181,681	-	47,431	134,250	134,250

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	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
\$273,395 Equipment Lease, due in monthly installments of \$2,046 through August 2008 including interest at 3.40%; final payment of \$204,322 due in September 2008.	223,020	-	18,698	204,322	204,322
\$160,195 Equipment Lease, due in monthly installments of \$1,239 through May 2010 including interest at 3.80%; final payment of \$121,535 due in June 2010.	148,991	-	7,770	141,221	9,656
\$214,395 Equipment Lease, due in monthly installments of \$2,201 through March 2011 including interest at 4.85%; final payment of \$135,707 due in April 2011.	207,669	-	16,706	190,963	17,535
\$177,952 Equipment Lease, due in monthly installments of \$3,385 through February 2012 including interest at 5.33%.	-	177,952	15,743	162,209	32,769
\$79,500 Equipment Lease, due in monthly installments of \$1,440 through August 2010 including interest at 8.83%; final payment of \$39,707 due in September 2010 .	-	79,500	2,435	77,065	12,119
Total Installment debt	3,011,361	257,452	558,783	2,710,030	860,651
Compensated absences	750,886	94,946	122,373	723,457	-
Claims Payable	134,418	-	11,255	123,163	-
Total Governmental Activities	<u>\$3,896,665</u>	<u>\$352,398</u>	<u>\$11,255</u>	<u>\$3,556,650</u>	<u>\$860,651</u>

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Following is a summary of future principal maturities and interest requirements:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 860,651	\$ 95,945
2009	526,257	68,287
2010	678,980	48,349
2011	624,144	20,562
2012	19,998	312
Total	<u>\$2,710,030</u>	<u>\$233,455</u>

6. RISK MANAGEMENT

The Road Commission is exposed to lawsuits and claims made by individuals. In response to this exposure, the Road Commission participates in the Michigan County Road Commission Self Insurance Pool (MCRCSIP). Participation in the MCRCSIP requires payment of premiums to the pool. The pool purchases commercial reinsurance on behalf of its members. Due to the Road Commission's participation in this pool, the liability of the Road Commission relative to claims covered by the pool is limited to \$25,000 per occurrence.

The Road Commission's self-funded workers' compensation program contains stop-loss and coverage of \$300,000 per incident. This limits the commissions' responsibility for payment to \$300,000 per workers' compensation claim.

Settled claims for the Road Commission have not exceeded coverage during the past three years. There have been no significant reductions in insurance coverage during the past year. The Road Commission's self-funded insurance claims that have been incurred through the end of the year include both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the government-wide statements as they are not expected to be liquidated with expendable available financial resources. The Commission is exposed to various risks of loss related to torts, destruction of assets and errors and omissions for which it obtains coverage from commercial insurance companies. The Commission has had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three years.

The changes in the claims liability for the years ended September 30, 2007 and 2006 are as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
MRCSCR Liability plan				
2006	\$9,700	\$81,517	\$10,210	\$ 81,007
2007	81,007	29,623	34,726	75,905
Workers' Compensation Plan				
2006	95,421	81,030	123,040	53,411
2007	53,411	93,751	99,904	47,258

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7. RETIREMENT PLAN

Defined Benefit Pension Plan

The Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Commission employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917

The Commission is required to contribute at an actuarially determined rate of 13.69% to 37.56% depending on bargaining unit; the current year amount was \$943,400. Participating employees are not required to contribute to the plan. The contribution requirements of the Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Commission, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Commission.

For the year ended September 30, 2007, the Commission's annual pension cost of \$943,400 for MERS was equal to the Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

Fiscal Year	Annual Pension	Percentage of APC	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
12/31/05	\$682,372	100%	\$ -
12/31/06	850,700	100%	-
12/31/07	943,400	100%	-

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$28,971,985	\$35,450,480	\$6,478,495	82%	\$6,286,653	103%
12/31/05	29,768,361	37,092,752	7,324,391	80%	6,478,421	113%
12/31/06	38,533,848	31,130,701	7,403,147	81%	6,272,650	118%

Section 457 Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Commission's financial statements.

8. POST EMPLOYMENT BENEFITS

The Commission administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health insurance premiums for retirees until age 65 (Medicare eligible). Benefit provisions are established through negotiations between the Commission and bargaining units and employee groups. The Commission makes 100% of the premium payment to the plan. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has not been established for the plan.

The Commission's contribution is based on pay-as-you-go financing requirements. For the current year contributions were \$89,211. Current year contributions are not materially different from the estimated current years ARC.

The Commission's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The first actuarial valuation of the Retiree Health Plan was performed as of January 1, 2008 with the requirements of GASB Statement # 45 being implemented prospectively. Fiscal year 2008 is the first year for which an actuarially required contribution (ARC) has been determined. The current year's contribution was considered to be equal to actual plan costs (estimated current years ARC) based on evaluation of the aforementioned actuarial valuation. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Commission OPEB obligation to the plan.

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FOR THE YEAR ENDED SEPTEMBER 30, 2007

Annual required contribution	\$ 89,211
Interest on Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	89,211
Contribution made	89,211
Increase in net OPEB obligation	-
Net OPEB obligation – beginning of the year	-
Net OPEB obligation – beginning of the year	<u>\$ -</u>

Three-Year Trend Information

Fiscal Year	Annual Required	Percentage of ARC	Net Pension
<u>Ending</u>	<u>Contribution (ARC)</u>	<u>Contributed</u>	<u>Obligation</u>
9/30/08	\$943,400	100%	\$ -

Schedule of Funding Progress

Actuarial	Market	Actuarial	Unfunded	Funded	Covered	UAAL as a
Valuation	Value of	Accrued	AAL	Ratio	Payroll	Percentage
<u>Date</u>	<u>Assets</u>	<u>Liability (AAL)</u>	<u>(UAAL)</u>	<u>Total</u>	<u>(c)</u>	<u>of Covered</u>
	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>			<u>Payroll</u>
1/1/08	\$ -	\$1,835,591	\$1,835,591	0%	\$8,232,000	22%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Commission is currently funding the plan on a pay as you go basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method, level dollar, closed amortization method, and an amortization period of 30 years were utilized. The actuarial assumptions included a 0% return on plan net assets as the plan is not funded, a discount rate of 4%, 10% inflation in 2008 graded to 5% in 2013, with implicit subsidy provided.

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FOR THE YEAR ENDED SEPTEMBER 30, 2007

9. SINGLE AUDIT

Governmental and certain other entities, which expend \$500,000 or more of direct federal dollars, are subject to a single audit in accordance with the OMB Circular A- 133. The Road Commission expended \$6,004,379 of federal/state dollars, which were administered by the Michigan Department of Transportation (MDOT). The monies will be included in the State of Michigan's single audit. Because direct federal dollars were less than \$500,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

10. LITIGATION

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

11. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

12. CHANGE IN ACCOUNTING POLICIES

During the current year the Commission changed its accounting policy for recognizing state shared fuel tax revenues on the fund financial statements. The Commission accounting policy changed from recognizing shared fuel taxes (collected by the state through September 30) received by the Commission within 30 days of year end to recognizing the balance received within 60 days or year end. The result of this change increased beginning fund balance of the general fund by \$1,368,601. This change did not affect the beginning balance reported on the government-wide statements.

GENERAL FUND SCHEDULES

OTTAWA COUNTY ROAD COMMISSION
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SCHEDULE OF CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Fund balances, beginning of year	\$ 2,351,990	\$ 1,661	\$ 2,181,206	\$ 4,534,857
Restatement - change in accounting policy	<u>929,566</u>	<u>439,035</u>	<u>-</u>	<u>1,368,601</u>
Fund balances, beginning of year (restated)	<u>3,281,556</u>	<u>440,696</u>	<u>2,181,206</u>	<u>5,903,458</u>
Revenues and other financing sources	20,713,559	10,095,650	187,529	30,996,738
Expenditures	<u>18,851,103</u>	<u>10,463,747</u>	<u>(286)</u>	<u>29,314,564</u>
Revenues over (under) expenditures	<u>1,862,456</u>	<u>(368,097)</u>	<u>187,815</u>	<u>1,682,174</u>
Other financing sources	<u>-</u>	<u>-</u>	<u>505,310</u>	<u>505,310</u>
Revenues and other financing sources over (under) expenditures	<u>1,862,456</u>	<u>(368,097)</u>	<u>693,125</u>	<u>2,187,484</u>
Fund balances, end of year	<u>\$ 5,144,012</u>	<u>\$ 72,599</u>	<u>\$ 2,874,331</u>	<u>\$ 8,090,942</u>

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SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Revenues				
Michigan Transportation Fund				
Engineering	\$ 6,000	\$ 4,000	\$ -	\$ 10,000
Primary road	9,208,119	-	-	9,208,119
Local road	-	4,123,959	-	4,123,959
Primary urban road	1,797,003	-	-	1,797,003
Local urban road	-	1,023,497	-	1,023,497
Snow removal	38,521	25,679	-	64,200
	<u>11,049,643</u>	<u>5,177,135</u>	<u>-</u>	<u>16,226,778</u>
Total Michigan Transportation Fund				
	<u>11,049,643</u>	<u>5,177,135</u>	<u>-</u>	<u>16,226,778</u>
 Federal and state sources	5,956,593	47,786	-	6,004,379
Trunk line maintenance	3,488,258	-	-	3,488,258
Township charges	-	4,811,186	-	4,811,186
Salvage sales	18,424	-	-	18,424
Interest earned	105,855	59,543	-	165,398
Other revenues	94,786	-	187,529	282,315
	<u>20,713,559</u>	<u>10,095,650</u>	<u>187,529</u>	<u>30,996,738</u>
Total Revenues				
	<u>20,713,559</u>	<u>10,095,650</u>	<u>187,529</u>	<u>30,996,738</u>
 Other financing sources (uses)				
Sales of capital assets	-	-	247,858	247,858
Bond/lease purchase agreements issued	-	-	257,452	257,452
	<u>-</u>	<u>-</u>	<u>505,310</u>	<u>505,310</u>
Total other financing sources (uses)				
	<u>-</u>	<u>-</u>	<u>505,310</u>	<u>505,310</u>
 Total revenues and other financing sources				
	<u>\$ 20,713,559</u>	<u>\$ 10,095,650</u>	<u>\$ 692,839</u>	<u>\$ 31,502,048</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Expenditures				
Primary road				
Construction and heavy maintenance	\$ 9,959,964	\$ -	\$ -	\$ 9,959,964
Maintenance	3,511,651	-	-	3,511,651
Local road				
Construction and heavy maintenance	-	4,877,427	-	4,877,427
Maintenance	-	4,567,493	-	4,567,493
Local bridges	-	2,702	-	2,702
Local paving	-	209,130	-	209,130
Local gravel	-	28,603	-	28,603
Local culvert	-	66,401	-	66,401
State trunk line maintenance	3,412,107	-	-	3,412,107
Other				
County drain assessments	23,639	68,689	-	92,328
Pit maintenance	96,541	-	-	96,541
Equipment expense, net	(198,717)	(296,835)	-	(495,552)
Administrative expense, net	1,410,206	940,137	187,529	2,537,872
Capital outlay, net	-	-	1,294,534	1,294,534
Depreciation	(28,195)	-	(1,482,349)	(1,510,544)
Debt service				
Principal	558,783	-	-	558,783
Interest	105,124	-	-	105,124
Total expenditures	<u>\$ 18,851,103</u>	<u>\$ 10,463,747</u>	<u>\$ (286)</u>	<u>\$ 29,314,564</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Administrative expenditures

Salaries	
Administrative	\$ 598,311
General engineering	195,828
Inspection and permits	157,410
Traffic	69,037
Plats and drains	34,084
Weigh master	21,285
Videotaping	1,842
Planning	7,564
Watershed	12,198
Asset management	698
Advertising	11,022
Commissioners	
Salaries	24,500
Other	5,542
Contractual services	58,635
Depreciation	61,139
Engineering supplies	4,703
Medical	2,093
Maps	7,084
Communications	45,266
Maintenance of office equipment	64,725
Office supplies	24,585
Postage	7,538
Dues and subscriptions	56,867
Travel and conferences	23,746
Legal and professional	54,342
Contract engineering	532
Building expense	28,539
Equipment expense	68,951
Distributive expense	914,811
	<hr/>
	\$ 2,562,877



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March 21, 2008

Members of the Board
Ottawa County Road Commission
Grand Haven, Michigan

We have audited the financial statements of the Ottawa County Road Commission (the Commission), for the year ended September 30, 2007, and have issued our report thereon dated March 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 4, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or your management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements.

As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in note 1 to the financial statements. GASB Statement No. 45 regarding other post employment benefits (OPEB) was adopted during the current year as discussed in note 8 to the financial statements. In addition, the Commission changed its accounting policy for the recognition of revenue as described in note 12 to the financial statements. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are the useful lives of capital assets and assumptions utilized in the pension and OPEB actuarial valuations.

Management's estimate of the useful lives of capital assets is based on historical actual usefulness and expected future usefulness of these assets. Assumptions utilized for actuarial valuations are based on past and expected future experience. We evaluated the key factors and assumptions used to develop the estimates and assumptions in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the performance of the audit we noted that the Commission is not always modifying capital asset schedules when capital asset disposals occur. We suggest that at least annually all capital asset schedules be reviewed and updated for actual activity.

During our audit we noted that the Commission was not always following the policies and procedures in place for making purchases and obtaining supervisor approval of purchases. We suggest that a review of the internal controls over the purchasing process be performed and policies and procedure be updated to provide for policy compliance while maintain appropriate internal control over the purchasing process.

This information is intended solely for the use of the Board and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Orlando Haefner LLC